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California Postsecondary Education Commission

Overview of Governor Schwarzenegger's Proposed 2006-07 Budget

ITEM 2
DRAFT

This report provides a summary of the Governor's proposed State budget for the upcoming 2006-07 fiscal year, with a focus on California postsecondary education. The report presents major programmatic highlights for higher education, along with charts describing both higher education and overall State funding levels in the proposed budget. The Commission will consider staff recommendations on selected proposals.

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The Commission advises the Governor and Legislature on higher education policy and fiscal issues. Its primary focus is to ensure that the state's educational resources are used effectively to provide Californians with postsecondary education opportunities. More information about the Commission is available at www.cpec.ca.gov.

Draft Commission Report

On Tuesday, January 10, 2006, Governor Arnold Schwarzenegger released his proposed State budget for the 2006-07 fiscal year, which begins on July 1, 2006. The budget includes more than \$116 billion in "general-purpose fund" expenditures, which include State General Funds, selected Special Funds, and Bond Funds. General Funds account for nearly \$98 billion of this total.

Display 1 shows proposed State General Fund revenues and expenditures from the current year and the proposed budget year. General Fund revenues are anticipated to rise 4.4%, while General Fund expenditures will grow 8.4%. Other fund sources and the substantial increase in the carry over of funds from the current fiscal year (\$6.5 billion) help fund this difference between anticipated General Fund revenues and proposed expenditures. The large increase in the category "Business-Transportation-Housing" is due primarily to transportation projects called for in Proposition 42 (see page 5 *Transportation*) and for general obligation bond debt service for transportation projects currently under construction.

Increased State Revenues and Expenditures

According to economists at both the Department of Finance and the Legislative Analyst's Office, State revenues for the prior (2004-05), current (2005-06), and budget (2006-07) fiscal years are much higher than initially anticipated. Tabulations of revenues for 2004-05 are \$2.3 billion higher than were estimated in the 2005-06 Budget Act.

For 2005-06, actual State revenues during the first half of this year are more than \$2 billion above initial estimates and revised forecasts for 2006-07 revenues are now \$3.7 billion above earlier

DISPLAY 1 General Fund Revenues and Expenditures in 2005-06 and as Proposed for 2006-07 (dollars in millions)				
	Revised 2005-06	Proposed 2006-07	Dollar Change	Percent Change
<u>REVENUES</u>				
Revenues	\$87,694	\$91,545	\$3,851	4.4%
<u>EXPENDITURES</u>				
Exec-Leg-Judicial	\$3,147	\$3,382	\$235	7.5%
State, Consumer Services	578	540	-38	-6.6%
Business-Trans-Housing	1,714	2,719	1,004	58.6%
Resources, Environment	1,466	1,601	135	9.2%
Health, Human Services	27,237	28,450	1,213	4.5%
Youth, Adult Corrections	7,612	8,038	426	5.6%
Non-Prop 98 Education ¹	9,517	10,413	896	9.4%
Prop 98 Education	36,311	40,456	4,145	11.4%
Labor, Workforce Devel.	89	92	3	3.6%
General Government	<u>2,622</u>	<u>2,211</u>	<u>-411</u>	<u>-15.7%</u>
Total	\$90,294	\$97,902	\$7,608	8.4%
1. Includes UC, CSU, CSAC, Hastings, other; <u>excludes</u> most CCC funding.				
Source: California Department of Finance 2006-07 budget materials.				

projections. For expenditures, the budget's proposed \$98 billion in General Fund spending is nearly \$6 billion higher than anticipated revenues for the budget year. However with the large carry-over of unspent funds anticipated from both the prior and current years, the budget year is still expected to end on June 30, 2007, with \$613 million in reserve.

The Governor's Major Budget Proposals

The Governor's proposed budget includes a ten-year "Strategic Growth Plan" to rebuild the state's infrastructure. The plan calls for \$223 billion in capital improvement spending on transportation, K-12 and higher education, flood control and water supply, public safety and courts, and other

areas. The plan would be financed by using \$96 billion in current revenues, such as gas taxes, \$68 billion in General Obligation Bonds, and \$59 billion from new sources. These new sources would include private investments and transportation bonds backed by state and federal transportation funds. The plan also proposes a constitutional amendment to limit the amount of debt service related to infrastructure development to 6% of state revenues.

Education – Proposition 98

Proposed Proposition 98 funding for K-12 education and community colleges totals \$54.2 billion, an increase of \$4.3 billion (8.7%), over the current-year. Of this increase, \$4.1 billion is due to growth in General Fund Proposition 98 spending, with the remaining funds coming from increased local property tax revenues. The amounts proposed for Proposition 98 spending in 2006-07 are estimated to be \$1.7 billion above the minimum funding guarantee for the budget year. This year's funding includes \$133 million in "settle-up" funds as the first payment towards meeting state minimum funding guarantee obligations for earlier years. The Department of Finance and Department of Education have calculated that for years prior to 2004-05, the State owes school districts and the community colleges a total of \$1.3 billion in "settle-up" funds.

K-12 Education

The Governor's 2006-07 budget proposes an increase of \$3.7 billion (8.4%) in K-12 education spending. Highlights of the K-12 spending plan include:

- \$2.3 billion for a 5.18% cost-of-living adjustment (COLA) and general purpose funds for enrollment growth in statutory and discretionary programs;
- \$426 million for Proposition 49 after school programs and \$2 million for administration and evaluation of the programs;
- \$200 million for equalization, as part of an ongoing effort to reduce historical inequities in general purpose spending for lower-wealth school districts;

- \$285 million in ongoing and one-time funds to pay state mandate claims to reimburse schools for state-required expenditures per an agreement to settle prior year claims;
- \$206 million to fund cost-of-living adjustments that were due but suspended in prior years.

In addition, the budget proposes \$165 million for K-12 teacher recruitment, retention, and training in low-performing schools, \$100 million for school art grants, \$85 million for improved physical education, and \$88 million for other initiatives.

Higher Education as a Whole

For higher education, the budget proposes State General Fund expenditures of \$13.3 billion, with a total of \$14.2 billion in State general-purpose fund spending. State General Funds (plus local funds for the community colleges) are budgeted to increase by \$1.4 billion (11.9%). Including systemwide student fee revenue, the proposed higher education budget exceeds \$17.1 billion, as is shown in Display 2.

Among the initiatives in the budget is a proposed “buy-out” of revenues that would have been generated by increases in resident undergraduate, graduate, and professional school student fees imposed at the California State University (CSU) and the University of California (UC). The budget includes \$54.4 million for CSU and \$75 million for UC to backfill the lost fee revenue.

The higher education budget also includes \$309 million for establishment of the California Institute for Regenerative Medicine. This Institute was authorized by the passage of Proposition 71, the “California Stem Cell Research and Cures Initiative,” on November 2, 2004. The measure provides for \$3 billion in funding for stem cell research at California universities and research institutions. It also calls for establishment of a new state agency to make grants and provide loans for stem cell research.

Higher education budget highlights include:

University of California

- \$3 billion in general funds, an increase of \$206 million (6.7%) above 2005-06;
- Continuation of \$14 million in one-time funding for UC Merced start-up costs;
- \$81 million increase (3%) for basic budget support;
- \$52 million increase (2.5%) for enrollment growth for around 5,149 FTE students;

	2005-06 (estimated)	2006-07 (proposed)		
<u>Entity</u>	<u>St. General Funds¹</u>	<u>St. General Funds¹</u>	<u>Percent Change</u>	<u>State- Determined Funds²</u>
CPEC	\$2,063	\$2,065	0.1%	\$2,065
University of California	2,842,434	3,049,182	7.3%	5,080,044
Hastings College	8,363	10,148	21.3%	37,540
California State University	2,597,452	2,775,763	6.9%	4,056,422
Calif. Community Colleges	5,286,923	5,857,459	10.8%	6,393,697
Student Aid Commission	752,450	861,615	14.5%	861,615
Other Higher Education ³	<u>358,703</u>	<u>702,772</u>	<u>95.9%</u>	<u>702,772</u>
Totals	\$11,848,388	\$13,259,004	11.9%	\$17,134,155

1. Community Colleges State General Funds include Local Property Tax Revenues.
2. State Determined Funds = General and local funds, Higher Education Fees and Income, lottery funds; excludes federal and extramural funds.
3. Higher Education G. O. debt service and retirement costs and the California Institute for Regenerative Medicine (Proposition 71, Nov. 2004).
Source: Governor's Proposed 2006-07 Budget.

- \$2 million increase to continue expansion of entry-level master's nursing programs, per SB 73;
- \$375,000 increase to expand the Science and Math Teacher Initiative to all UC campuses;
- Elimination of funding (\$17 million) for student academic preparation and education programs.

California State University

- \$2.8 billion in General Funds, an increase of \$178 million (6.9%) above 2005-06;
- \$76 million increase (3%) for basic budget support;
- \$58 million increase (2.5%) for enrollment growth, around 8,490 FTE students;
- \$2 million increase to continue expansion of entry-level master's nursing programs, per SB 73;
- \$1 million increase (\$652,000 one-time) for the Science and Math Teacher Initiative;
- \$84,000 increase for the Capital Fellows Program;
- \$22.5 million reduction for retirement costs;
- Elimination of funding (\$7 million) for student academic preparation and education programs.

California Community Colleges

- \$6.1 billion in combined state general and local funds, an increase of \$596 million (9.8%) above 2005-06;
- \$149 million increase (3%) for growth in apportionments, around 35,000 FTE students;
- \$130 million for equalization for lower-wealth districts; with this augmentation, the credit instruction funding rates will be fully equalized to the 90th percentile for all colleges;
- \$265 million for a 5.18% cost-of-living adjustment for apportionments;
- \$30 million increase for Career Technical Education, as part of a larger economic development initiative;
- \$21 million for categorical program growth and cost-of-living adjustment; this provides for 1.74% growth and a 5.18% cost-of-living adjustment for categorical programs including: Basic Skills, Matriculation, Disabled Students Programs and Services, and Extended Opportunity Programs and Services;
- \$10 million for Disabled Students Program support for additional sign language interpretive services and real-time captioning equipment for deaf and learning disabled students;
- \$500,000 to expand statewide the California Partnership for Achieving Student Success (CalPASS); in this program, K-12 schools, community colleges, and universities share data on student performance and transition between segments;
- \$100,000 for baccalaureate pilot programs, per AB 1280; this program facilitates collaborative partnerships between community colleges and four-year institutions to provide baccalaureate degrees at community colleges in geographic areas with low four-year institution participation.

Student Aid Commission

- \$40 million increase for anticipated growth in costs in the Cal Grant Program; this includes the impact on Cal Grants (\$29 million) of the CSU/UC student fee increase buyout;
- \$7 million increase for growth in Assumption Program of Loans for Education (APLE);

- \$51 million increase in general funds for financial aid programs as backfill for Student Loan Operating Fund monies used to support these programs in 2005-06.

Other Budget Highlights

Initiatives in other areas of the proposed budget include:

Health – enrolls more children in health coverage in the Medi-Cal and Healthy Families Program, shifting state general, special, and federal funds among private and public hospitals to reduce general fund costs in state programs for the uninsured;

Social Services – suspends the state cost-of-living adjustments for Supplemental Security Income/State Supplementary Program, generating savings of \$48 million; changes in the Cash Assistance Program for Immigrants for savings of \$12.5 million; a reduction in CalWorks county block grant funds for selected services totaling \$93 million;

Corrections – proposes more than \$450 million in augmentations from state and federal fund sources for the newly reorganized California Department of Corrections and Rehabilitation; \$100 million for the Citizen's Option for Public Safety program, and \$100 million for Juvenile Justice Crime Prevention Act grants;

Transportation – fully funds the transfer of \$1.4 billion in state sales taxes on gasoline from the general fund to transportation purposes pursuant to Proposition 42 (2002); repays \$920 million of the \$1.3 billion in Proposition 42 funds not transferred in 2004-05; amends Proposition 42 to prohibit a suspension of these transfers in future years;

Statewide Issues – anticipates \$200 million in one-time savings through reductions in program costs and another \$58 million by reducing each department's personnel budget by 1%; proposes to allow the Director of Finance to reduce general fund appropriations by up to 25% of the affected appropriations during the fiscal year if deemed necessary.

Summary and Conclusions

The Governor proposes a major initiative to rebuild California's physical infrastructure and provides additional funding to help address outstanding issues relating to Proposition 98 and state correctional services. The budget allocates some anticipated revenues to reduce debt levels from 2003 Economic Recovery Bonds and other accumulated debt. However the state still faces structural deficits and the budget does not fully repay funds borrowed from schools and local governments in past years. Further, should the state or national economic performance not live up to expectations, much of the anticipated tax revenues built into the proposed 2006-07 budget may not materialize.

At more than \$17 billion in State-determined general purpose funds, the proposed 2006-07 State budget for California higher education is substantial. The proposal funds two Commission priorities: student enrollment growth (access) and student financial aid (affordability). The eventual disposition of the student fee revenue buyout proposal could also support another Commission priority – the adoption of a long-term student fee policy. The proposed elimination of state funding for CSU and UC academic outreach programs is one proposal that will likely be closely examined in the Legislature.

Attached are staff [recommendations](#) on the higher education budget for 2006-07.

Information for this report was provided by the California Department of Finance, Legislative Analyst's Office, and other sources. Additional information on the Governor's proposed 2006-07 state budget can be found at the following websites:

California Department of Finance: <http://www.ebudget.ca.gov/BudgetSummary/BSS/BSS.html>

Legislative Analyst's Office: http://www.lao.ca.gov/2006/budget_ov/2006-07_budget_ov.htm

